

REBUTTAL TESTIMONY

of

DAVID SACKETT
Economic Analyst

Policy Program
Energy Division
Illinois Commerce Commission

Proposed General Increase in Gas Rates

North Shore Gas Company

and

The Peoples Gas Light and Coke Company

Docket Nos. 09-0166 and 09-0167 Consolidated

August 4, 2009

Contents

I. WITNESS QUALIFICATIONS 1

II. PURPOSE OF TESTIMONY AND BACKGROUND INFORMATION..... 1

III. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS 2

IV. SERVICE CLASS MIGRATION ISSUES..... 3

V. LARGE-VOLUME TRANSPORTATION PROGRAMS 4

 DIVERSITY FACTORS 4

 CREDIT FOR WORKING GAS FOR LARGE-VOLUME TRANSPORTATION CUSTOMERS 5

 UNBUNDLE RIDER SST’S ALLOWABLE BANK (“AB”) FROM STANDBY SERVICE 7

 STANDBY SERVICE CHARGE 43

 STANDBY COMMODITY CHARGE 45

 INTRA-DAY NOMINATION RIGHTS 46

 SUPER-POOLING..... 47

VI. SMALL-VOLUME TRANSPORTATION PROGRAMS 48

 CREDIT FOR WORKING GAS FOR SMALL-VOLUME TRANSPORTATION CUSTOMERS 48

1 **I. Witness Qualifications**

2 **Q. State your name and business address.**

3 A. David A. Sackett, Illinois Commerce Commission, 527 East Capitol Avenue,
4 Springfield, Illinois, 62701.

5

6 **Q. Are you the same David Sackett who previously testified in this proceeding?**

7 A. Yes.

8

9 **II. Purpose of Testimony and Background Information**

10 **Q. What is the subject matter of your rebuttal testimony?**

11 A. This testimony concerns the rebuttal testimony of certain witnesses for The
12 Peoples Gas Light and Coke Company (“Peoples Gas”) and North Shore Gas
13 Company (“North Shore”) (individually, the “Company” and collectively, the
14 “Companies”) and their Proposed General Increases in gas rates. In particular
15 my rebuttal testimony responds to the rebuttal testimony of the Companies’
16 witnesses Ms. Grace, Mr. Dobson, and Mr. McKendry regarding the Companies’
17 large-volume gas transportation services as set forth in Riders Full Standby
18 Transportation Service (“FST”) and Selected Standby Transportation Service
19 (“SST”) and the Companies’ small-volume gas transportation services as set
20 forth in Rider Choices For You (“CFY”). I briefly address service class migration
21 issues. I also address the direct testimony of intervenor witness Ms. Rozumialski
22 for Constellation NewEnergy Gas (“CNE”).

23

24 **III. Summary of Conclusions and Recommendations**

25 **Q. Please summarize your conclusions and recommendations.**

26 A. I conclude that the Companies' practice of bundling banking services with
27 standby service is both inefficient and inequitable. Furthermore, I also have
28 eleven additional recommendations for the Commission to implement in this
29 case, as follows:

- 30 1. Approve the Companies' proposed maximum and minimum eligibility
31 requirements.
- 32 2. Approve a credit to large volume customers for the savings the Companies
33 experience due to reduced storage inventory from a per customer credit to a
34 per-therm-of-Maximum Daily Quantity ("MDQ") credit.
- 35 3. Approve updating the diversity factors applied to Rider SST and FST.
- 36 4. Require the Companies to unbundle standby service and the Allowable Bank
37 ("AB") and implement appropriate cost recovery methods.
- 38 5. Approve the use of the System Banking Charge to recover on-system bank
39 costs from Rider SST customers.
- 40 6. Approve the use of the Leased Storage Charge to recover off-system bank
41 costs from Rider SST customers.
- 42 7. Approve the creation of the Leased Storage Gas Charge in Rider 2 to recover
43 off-system bank costs from Rider SST customers.
- 44 8. Approve the use the Daily Chicago City Gate Price ("CCG") as the Standby
45 Commodity Charge for Rider SST and the Average Chicago City Gate Price as

46 the Standby Commodity Charge for Rider FST instead of the current charge

47 which is tied to the PGA.

48 9. Approve the addition of one restricted intra-day nomination.

49 10. Approve the after-the-fact recalculation of Critical Day penalties incorporating
50 super-pooling.

51 11. Approve a credit to Choices For You (“CFY”) customers for the savings the
52 Companies experience due to reduced storage inventory from a per customer
53 credit to a per-therm-of-Maximum Daily Quantity (“MDQ”) credit

54

55 **IV. Service Class Migration Issues**

56 **Q. What is the issue with respect to service class migration in this docket?**

57 A. The Companies have proposed to create both minimum and maximum usages for
58 each service class in order to prevent migration of customers from rate class to rate
59 class unless their usage actually changes.

60

61 **Q. Did the Companies respond in testimony to your request for greater**
62 **support for the 41,000 average monthly therm maximum usage eligibility**
63 **requirement for Service Classification (“SC”) No. 2 for Peoples Gas and**
64 **North Shore and the new 41,000 average monthly therm minimum usage**
65 **eligibility requirement for SC No. 3 for North Shore?**

66 A. Yes. Ms. Grace provides support for these requirements on pages 42-49 of her
67 rebuttal testimony. According to Ms. Grace,

68 Migration of large S.C. No. 4 customers, whose usage is not
69 consistent with the usage requirements for S.C. No. 2, would not only

70 affect Peoples Gas' ability to earn its Commission approved revenue
71 requirement for S.C. No. 4, it would result in refunds under Rider VBA
72 arising from such customer migration. This would adversely affect
73 Peoples Gas' ability to earn its Commission approved revenue
74 requirement for S.C. No. 2. The same situation would arise for North
75 Shore if customers with usage larger than the proposed eligibility
76 requirement for S.C. No. 2 were allowed to migrate from S.C. No. 3 to
77 S.C. No. 2.
78 (NS-PGL Ex. VG-2.0, p. 47)
79

80 **Q. What do you recommend with regard to the 41,000 average monthly therm**
81 **eligibility requirement proposed as a maximum eligibility requirement for**
82 **Peoples Gas and North Shore SC Nos. 2 and a maximum eligibility**
83 **requirement for North Shore SC No. 3?**

84 A. Ms. Grace's arguments regarding the detriment to the Companies due to the
85 unique situation caused by the presence of the VBA were reasonable. Given her
86 rebuttal testimony, I have no objections to these eligibility barriers and recommend
87 that the Commission approve them.

88
89 **V. Large-Volume Transportation Programs**
90 **Diversity Factors**

91 **Q. What did you recommend with respect to updating the Diversity Factors?**

92 A. I recommended that the diversity factors contained in the transportation tariffs
93 should be updated to reflect the most recent data.

94

95 **Q. Did the Companies agree to your proposal?**

96 A. Yes. Companies' witness Ms. Grace agreed to my proposal. (NS-PGL Ex. VG-2.0,
97 p. 55)

98

99 **Credit for Working Gas for Large-Volume Transportation Customers**

100 **Q. What did you recommend with respect to providing a credit for working gas**
101 **costs for large volume transportation customers?**

102 A. I recommended that large volume transportation customers should receive a credit
103 for working gas costs since the Companies incur this cost when they hold gas for
104 later delivery for sales customers. Transportation customers do not benefit from it.
105 Indeed, by filling their banks, large volume transportation customers incur directly
106 their own working gas costs.

107

108 **Q. Did the Companies agree to provide a credit to large-volume transportation**
109 **customers for working gas costs that is analogous to the credit proposed**
110 **for small-volume customers?**

111 A. The Companies agreed to my recommendation that large-volume transportation
112 customers should be treated the same as small-volume transportation customers
113 (See Section VI below). Since the Companies have agreed to provide a working
114 gas costs credit directly to the small volume transportation customers on a per-
115 therm-of-capacity basis, they proposed to create a credit for large-volume
116 transportation customers based on Maximum Daily Quantity ("MDQ") for Rider FST

117 and a combination of both MDQ and Selected Standby Quantity for Rider SST.

118 (NS-PGL Ex. VG-2.0, pp. 55-56)

119

120 **Q. Why do the Companies propose to use a customer’s MDQ for Rider FST**
121 **and Selected Standby Quantity for Rider SST?**

122 A. Ms. Grace states that since the credit is based on the size of the bank rather than
123 on usage, applying Rider FST credits per-therm-of-MDQ and Rider SST credits
124 per-therm-of-Selected Standby Quantity (“SSQ”) is appropriate. Additionally,
125 MDQ is the value that I proposed the Companies use with regard to Rider CFY;
126 however, Rider SST does not base bank capacities on MDQ but rather on SSQ.
127 Thus, it is appropriate to use the SSQ to calculate and allocate this credit for
128 Rider SST.

129

130 **Q. Do you accept the Companies’ proposed credit?**

131 A. Yes. However, if the Rider SST Allowable Bank is unbundled as I propose, then
132 the applicable Rider SST banking formulas will change and the SSQ will no longer
133 be the appropriate measure of the bank size for Rider SST customers. If the Rider
134 SST Allowable Bank is unbundled and my Rider SST revision accepted, the
135 Selected Bank Quantity (“SBQ”) will be the appropriate measure of bank size and
136 the SBQ = (Selected Bank Percentage x Maximum Daily Quantity).

137

138 **Unbundle Rider SST’s Allowable Bank (“AB”) from Standby Service**

139 **Q. Please provide an overview of your rebuttal testimony as it pertains to your**
140 **proposal to unbundle the Allowable Bank from standby services.**

141 A. First, I will address the Companies’ objections to my proposal, which were primarily
142 directed at my implementation details as opposed to the concept of unbundling,
143 including a discussion regarding the data that I provided showing the need for
144 unbundling the Allowable Bank. Second, I will demonstrate the inefficiency and
145 inequity of the current bundling practice. Third, I will clarify that my proposal only
146 *partially* unbundles banking and standby services. Specifically, my proposal allows
147 Rider SST customers to purchase banking services without paying for standby
148 services (unbundled banking service), but does not allow Rider SST customers to
149 purchase standby services without purchasing banking services (bundled standby
150 service). Finally, I address cost recovery issues/billing issues and provide a
151 detailed billing model that demonstrates the methodology that I recommend to
152 ensure that the company adequately recovers the costs from providing both
153 standby and banking services.

154

155 **Q. What did you recommend in your direct testimony with respect to the**
156 **Companies’ practice of providing storage services bundled with the**
157 **provision of standby services?**

158 A. I recommended that the Companies should provide an option for access to a bank
159 that is unbundled from the standby service. I use the term “unbundled” to refer to

160 the practice of combining services under a single price and not to refer to removing
161 restrictions on use of these services. Use of storage assets should not be
162 predicated on the customer buying system gas for standby use. Storage assets
163 facilitate delivery of gas to customers and the use of these assets should be
164 available to both sales and transportation customers on a reasonable basis.

165

166 **Q. Did the Companies respond to your proposal to unbundle the Allowable**
167 **Bank from standby service?**

168 A. Yes. The Companies objected to my proposal. However, the Companies'
169 misunderstanding of my proposal appears to be the main driver of their
170 objections to it. The Companies' misunderstanding was caused, in part, by
171 several errors contained in my direct testimony, which caused the Companies to
172 make erroneous calculations and led to inappropriate conclusions on the
173 Companies' part. My direct testimony was intended to provide the general
174 framework for the unbundling of the Allowable Bank rather than to lay out all of
175 the specifics, and I have modified my proposal in this rebuttal testimony to
176 address the Companies' major concerns. With correction of the
177 misunderstandings and adoption of the modifications proposed below, there are
178 no significant practical obstacles to adoption of my partial unbundling proposal
179 and the Commission should adopt that proposal to enhance the competitive
180 choices for transportation customers.

181

182 **Q. How did Mr. Dobson's response demonstrate a fundamental**

183 **misunderstanding of your proposal?**

184 A. Mr. Dobson apparently failed to grasp that my proposal unbundle banking service
185 was to be accomplished solely by modifications to an existing tariff, Rider SST.
186 Mr. Dobson objected that my proposal was unclear as to who it pertained to. He
187 stated, “Mr. Sackett appears to focus on unbundling AB from the standby service
188 offered under Rider SST; however, while the Utilities assume the proposal does
189 not apply to CFY, it is unclear from his testimony if his unbundling proposal would
190 apply to Rider FST as well as Rider SST.” (NS-PGL Ex. RD-1.0 Rev., p. 6) In my
191 direct testimony, I proposed specific changes to Rider SST. (Staff Ex. 12.0R, p.
192 37-41) At no time did I ever propose any changes to Rider FST or Rider CFY
193 regarding the Allowable Bank. I did propose to make a change to the Standby
194 Commodity Charge for Riders FST and SST, but I explicitly stated that was my
195 intent. To clear up any misunderstanding, let me state that I do not propose any
196 changes to Rider FST’s Allowable Bank; there is no need because those
197 customers desire full standby and the bank that comes with it. To the extent that
198 those customers desire less than full standby service or unbundled banking
199 services of any size, they can obtain those services by switching to Rider SST. I
200 propose to unbundle the Allowable Bank in Rider SST only.

201

202 **Q. How do you respond to Mr. Dobson’s objections concerning unclear**
203 **operational parameters?**

204 A. Mr. Dobson objected that my proposal was unclear as to what the operational
205 parameters of this service would be. (NS-PGL Ex. RD-1.0 Rev., p. 8-17) I am

206 not proposing any changes to the operational parameters of Rider SST's
207 Allowable Bank; thus, his concern is misdirected. I am not proposing a new
208 service. I am modifying an existing service by removing the existing link between
209 the Selected Standby Percentage and the capacity of the Allowable Bank. The
210 challenge here has never been one of how the unbundled bank would work
211 operationally because, I have proposed no changes to the operational
212 parameters. Specifically, I do not propose any changes to Sections C through H
213 of Rider SST.

214

215 **Q. What issues that affect system operations and reliability does Mr. Dobson**
216 **raise?**

217 A. I believe that Mr. Dobson may be concerned with practical operational effects on
218 the system if my partial unbundling proposal results in transportation customers
219 subscribing to a higher level of banking services than is currently the case. He
220 states, "Mr. Sackett's proposal raises several operational concerns, including:
221 injection and withdrawal sourcing limitations; company owned and leased storage
222 injection and withdrawal limits; the application of unexpected system storage
223 limitations on daily withdrawals and injections; and the reduction of assets available
224 to the Utilities to balance the system each day." (NS-PGL Ex. RD-1.0 Rev., p. 8)

225

226 **Q. How do you respond to Mr. Dobson's objections concerning "injection and**
227 **withdrawal sourcing limitations"?**

228 A. Mr. Dobson states that my proposal raises concerns about “injection and
229 withdrawal sourcing limitations.”

230 The Utilities’ portfolios contain both company-owned storage
231 (Peoples Gas only) and leased storage assets. Each of these storage
232 assets have unique injection and withdrawal limits that vary by the
233 time of year, the balance of gas in storage relative to the maximum
234 storage quantity, and the need to have gas supply transported on the
235 appropriate transportation service. These injection and withdrawal
236 sourcing limitations must be adhered to or the Utilities’ ability to fully
237 utilize the storage service will be degraded or penalty costs will be
238 incurred.
239 (NS-PGL Ex. RD-1.0 Rev., pp. 8-9)

240 While Mr. Dobson correctly pointed out that the Utilities have operational
241 constraints he has not shown my proposal will cause these constraints to be
242 violated. He is unclear how this issue, which the Companies currently face, would
243 be exacerbated and he does not provide any link between this issue and my
244 proposal.

245

246 **Q. How do you respond to Mr. Dobson’s objections concerning “company
247 owned and leased storage injection and withdrawal limits”?**

248 A. Mr. Dobson raises this concern but fails to show any connection between this
249 issue and my proposal.

250

251 **Q. How do you respond to Mr. Dobson’s objections concerning “the
252 application of unexpected system storage limitations on daily withdrawals
253 and injections”?**

254 A. These unexpected system limitations already occur and the Companies already
255 have a response outlined in their tariffs. I am not advocating any changes to this
256 part of Rider SST.

257

258 **Q. How do you respond to Mr. Dobson’s objections concerning “the reduction**
259 **of assets available to the Utilities to balance the system each day”?**

260 A. While I do not know exactly what assets are available to the Companies to make up
261 any additional need, if those assets are available to customers and suppliers it is
262 likely that those services are available to utilities.

263

264 **Q. Do you have any general comments on Mr. Dobson’s operational**
265 **concerns?**

266 A. Yes. Mr. Dobson does not say that the Companies could not provide an unbundled
267 bank for operational reasons. His concerns are legitimate and important to
268 consider. The Companies have an important role as the balancer of the system. I
269 have not seen any evidence suggesting, and do not believe, that my proposal as
270 presented here will create any significant increases in operational problems so as
271 to negate its economic benefits.

272

273 **Q. Are there any potential system benefits from your proposal?**

274 A. Yes. Mr. Dobson does not list any potential system benefits from my proposal.
275 Some of those benefits include: If customers use larger banks, then the

276 Companies are responsible for filling less of their own storage on behalf of sales
277 customers. Also, if customers use less standby as a result, the Companies will
278 need less Nominated Storage Services and Firm Transportation from the pipelines.
279 Additionally, my proposal to price the Standby Commodity Charge with the Chicago
280 City Gate will create less destabilizing peak day standby use because the daily
281 price will reflect the higher demand on those days.

282

283 **Q. How do you respond to the potential problems that Mr. Dobson identifies**
284 **concerning the annual subscription process and the multi-year pipeline**
285 **contracts?**

286 **A.** Mr. Dobson states that having an annual subscription process could lead to
287 stranding storage and transportation capacity or a cost-shift to sales customers.
288 (NS-PGL Ex. RD-1.0 Rev., p. 16-17) However, the Companies already use an
289 annual subscription process for bundled banking services and buy multi-year
290 contracts. Therefore, the potential problems he identifies are no different than
291 the potential problems under the current arrangement that other Illinois gas
292 utilities have in providing unbundled service. Additionally, Mr. Dobson offers no
293 support for his statement.

294

295 **Q. How do you respond to Mr. Dobson's objections concerning capacity**
296 **allocations?**

297 **A.** Mr. Dobson's uses an equation (NS-PGL Ex. RD-1.0 Rev., pp. 4-5) to determine
298 the AB under Rider SST from my revised direct testimony that was incorrectly

299 stated in my testimony. (Staff Ex. 12.0R, p. 38) The equation in my revised direct
300 should have read, $AB = [BRD + (GCD \times DF)] \times MDQ$ rather than $AB = [BRD \times$
301 $(GCD \times DF)] \times MDQ$. I realize that my error caused Mr. Dobson to draw some
302 incorrect conclusions about the size of the capacity that would be allocated to Rider
303 SST customers under my proposal. Moreover, as I will go into further detail below,
304 I also propose a new methodology to determine the Rider SST bank capacity that
305 should further address Mr. Dobson's concern. I would like to emphasize that my
306 proposal was never intended to allow transportation customers as a group to use
307 more than their equitable share of storage assets. The total capacity of the bank
308 has never been an issue because, as I explained in my direct testimony, "by using
309 all storage assets, both on- and off-system, to determine the size of the AB, [my
310 proposal] does not change the size of the AB." (Staff Ex. 12.0R, p. 30) Therefore, I
311 have not proposed to change the allocation of bank capacity from what the
312 Company proposed in VG 1.12 Revised. Rider SST customers would still be
313 eligible for 13,839 Mdth (Peoples Gas) and 1,598 Mdth (North Shore) of capacity,
314 as they are under the current tariff. (Companies' responses to DAS 6.16)

315

316 **Q. If the proposed partial unbundling results in additional subscription to**
317 **banking services and a need for additional storage capacity for sales**
318 **customers, what do you propose should be done to ensure the stability of the**
319 **Companies' gas systems?**

320 A. As noted above, this risk already exists. In any event, the Companies can make
321 use of the Hub capacity that Peoples Gas offers to the marketplace, purchase

322 additional off-system storage to make up any difference, or bring in more flowing
323 gas.

324

325 **Q. Would the purchase of off-system assets raise costs to sales customers?**

326 A. Perhaps. However, if transportation customers fully subscribe to unbundled
327 storage and this causes the Companies to purchase additional more expensive off-
328 system storage, costs for *all* customers would rise because transportation
329 customers will be paying my proposed Leased Storage Gas Charge. This charge
330 is a component of the PGA which is recalculated every month and compensates
331 sales customers for transportation customers' usage of storage (see below). Thus,
332 the increasing costs billed to transportation customers through the Leased Storage
333 Gas Charge are in conjunction with increasing storage capacity subscribed to by
334 transportation customers.

335

336 **Q. Why is the current allocation process for available capacity equitable?**

337 A. Storage allocation should be an equitable process. The Companies first proposed
338 the current process to allocate storage in Docket Nos. 95-0031 and 95-0032. This
339 procedure, as shown in the Companies' Exhibits VG 1.12 Revised, divides the

340 storage assets into peak days of deliverability. It proportionally allocates the total
341 system capacity to various customer classes based on relative MDQ.¹

342

343 **Q. Why is the current practice of bundling the storage allocated to Rider SST**
344 **customers to the provision of standby service inequitable?**

345 A. The Companies decided to bundle these two services. This bundling produces an
346 inefficient result for the Rider SST customers who would like to have more storage
347 but are forced to purchase a high-priced bundled product that they do not need in
348 order to be able to receive storage. There is no compelling reason to bundle these
349 services together. The result of this bundling is that most Rider SST customers are
350 economically precluded from using the full capacity allocated to them.

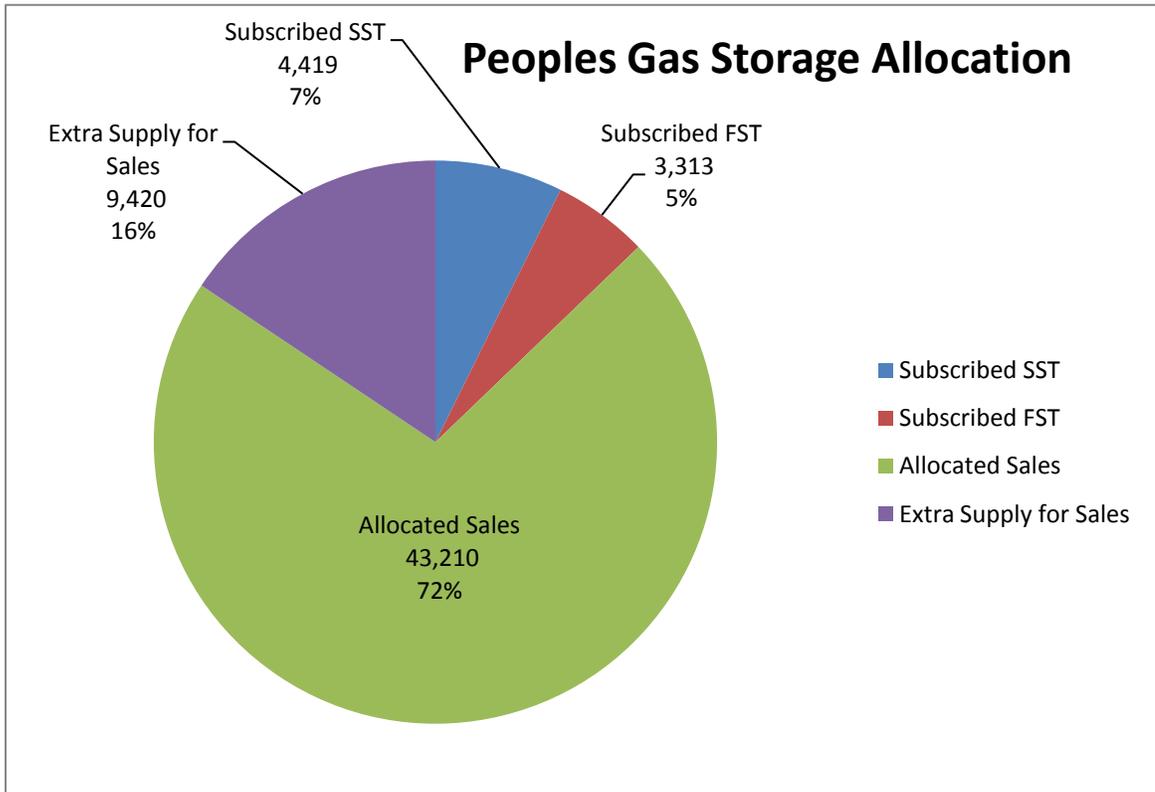
351

352 **Q. How does the current subscription of assets reveal this inequity??**

353 A. Currently, the Companies have allocated their total systems as shown in VG 1.12R.
354 Based on the Companies' responses to DAS 6.16, Peoples Gas and North Shore
355 Rider SST customers could receive 13,839 Mdth and 1,598 Mdth respectively, if
356 they elected to receive full standby. Peoples Gas and North Shore Rider SST
357 customers have been allocated 23% and 16% of storage capacity, respectively.
358 However, according to Mr. Dobson's rebuttal testimony, Rider SST customers have

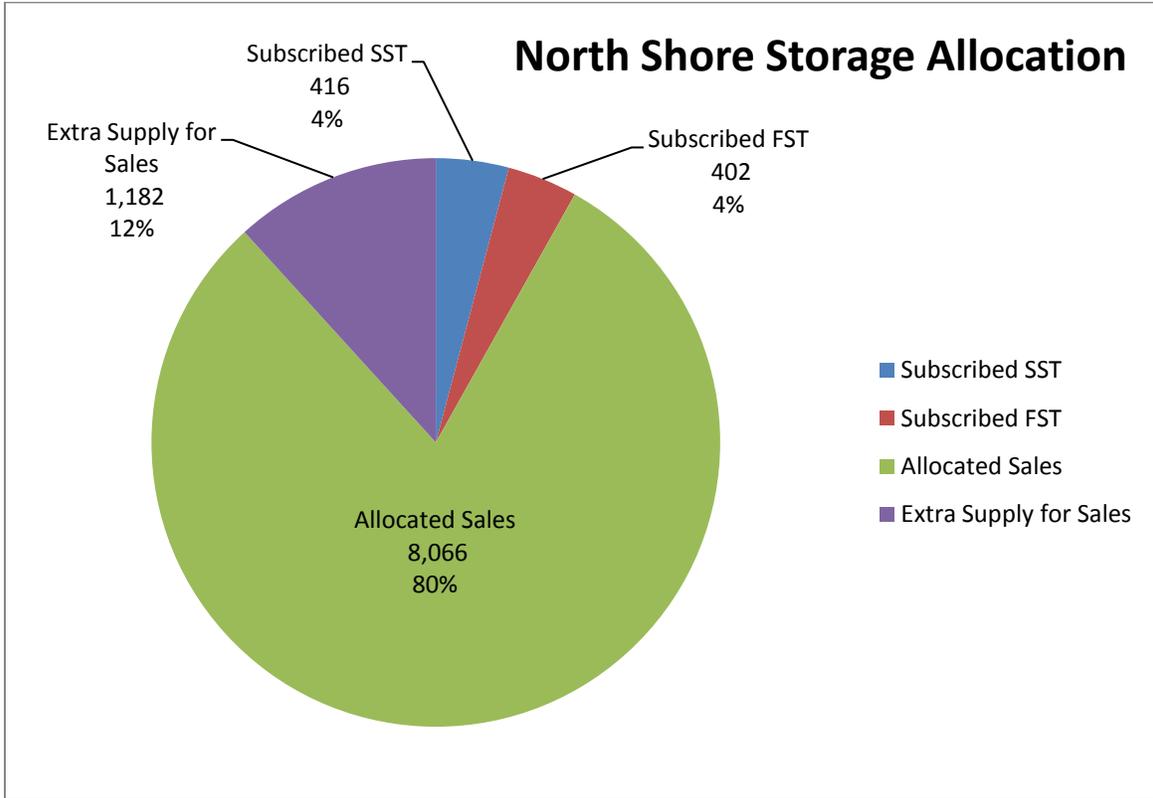
¹ Using MDQ instead of annual usage to allocate the storage favors the customers who have a heat sensitive load (which tend to be smaller customers) over process load customers (mostly larger transportation customers).

359 only subscribed a total capacity of 7% (4,419 Mdth) and 4% (416 Mdth)
360 respectively. (NS-PGL Ex. RD-1.0 Rev., pp. 4-5) Additionally, Rider FST total AB
361 for January 2009 was 3313 Mdth and 402 Mdth for Peoples Gas and North Shore,
362 respectively (according to the Companies' responses to DAS 1.19).



363

364



365

366

367 **Q. What does the under-subscription mean for sales customers?**

368 A. Using the current equitable allocation process, Peoples Gas and North Shore sales
369 customers that are not on Rider SST have been allocated 72% and 80% of storage
370 capacity, respectively. However, this data (Attachment A) shows that they actually
371 have the use of 87% and 92% of total system storage capacity, respectively.² This
372 means that even if all Rider SST customers take 100% banks, Peoples Gas still

² Since Rider FST customers have at their disposal all of the allocated storage capacity, the only customers that use this unsubscribed capacity are sales customers.

373 has control of 72%, and North Shore has control over 80% of storage capacity; they
374 effectively lose control of 16% and 12% respectively

375

376 **Q. Since this subscription is a choice for Rider SST customers and they can**
377 **elect 100% standby, why do you conclude that this result under the current**
378 **bundled offerings is inequitable?**

379 A. I conclude that this is inequitable because in order to get this full capacity, Rider
380 SST customers are being forced to buy a service (standby service) that they do not
381 need This unduly raises the cost of banks and subsidizes sales customers (by use
382 of unsubscribed capacity) at SST customers' expense.

383

384 **Q. In terms of Rider SST customers taking as much bank as is offered, what is**
385 **the maximum usage scenario for sales customers and the system?**

386 A. The maximum usage scenario is that all transportation customers take 100% of
387 their equitable allocated share of storage capacity and they get 23% (Peoples Gas)
388 and 16% (North Shore) of the storage. This can be viewed as not *unfair* to any
389 customers and is righting an inequity that currently exists.

390

391 **Q. Is the result of bundling the Rider SST storage to standby service inefficient**
392 **for Rider SST customers?**

393 A. Yes. Rider SST customers under-subscribe to storage services due to the
394 artificially high price that reflects not just the cost of storage but also the cost of
395 providing standby. I have calculated the costs of just banking resources in the
396 System Banking Charge (“SBC”) and the Leased Storage Charge (“LSC”) and the
397 result is an unbundled bank that is cheaper than the bank that is bundled with
398 standby service.

399

400 **Q. What do you conclude regarding the allocation of capacity?**

401 A. The evidence here shows that the current subscription of storage is inequitable and
402 inefficient because transportation customers are having to pay a high price to get
403 the bank and are under-subscribing as a result and that providing transportation
404 customers with an option to subscribe to an unbundled bank will provide greater
405 equity. Any capacity that sales customers may lose can be thought of as not part of
406 their equitably allocated capacity, but rather capacity that transportation customers
407 have “chosen” not to use in the past under the bundled offering. Transportation
408 customers may reclaim capacity that has been equitably allocated to them but
409 offered as a bundled product (per the Companies’ decision to bundle storage with
410 standby service) that customers did not find desirable.

411

412 **Q. How do you respond to Ms. Grace’s objections that the Companies have**
413 **already offered Rider TB unbundled storage but that no one wanted that**
414 **storage?**

415 A. Ms. Grace is discussing a different and less desirable product than I am proposing
416 here. She testifies that unbundled storage was offered but that no one wanted it.
417 (NS-PGL Ex. VG-2.0, p 57) However, I do not believe that Rider TB is evidence of
418 lack of demand for reasonably priced unbundled storage. Rider TB restricted
419 suppliers from pooling their customers with any standby with their customers on
420 Rider TB. Additionally Rider TB had several severe penalties for imbalances which
421 degrades the value of the service. For whatever reason, Rider TB was not an
422 economic product—a product worth its price.

423

424 **Q. What evidence is there that transportation customers do indeed want**
425 **unbundled storage?**

426 A. Some intervenors in the last rate case asked for an economic banking service
427 unbundled from the requirement to take backup while Rider TB was still in the
428 books with unbundled storage. (Initial Brief, IIEC/CNE/VES, Docket No. 07--
429 0241/0242 cons.). Also, as indicated in Attachment B to my testimony, Nicor Gas'
430 unbundled storage capacity is fully subscribed. It is likely that Peoples Gas and
431 North Shore transportation customers are not that different from Nicor Gas'
432 transportation customers.

433

434 **Q. Do you have any modifications to your proposal as made in your revised**
435 **direct testimony?**

436 A. Yes. I have several modifications to propose in my rebuttal testimony. The
437 Allowable Bank as I set it up in my revised direct testimony was difficult to
438 understand because it required a complicated method to ensure cost recovery. So,
439 I propose a simplified approach consistent with the intent of my original proposal.

440

441 **Q. Is the unbundling in your proposal full unbundling of standby service and**
442 **banking service or partial?**

443 A. My proposal is for partial unbundling by unbundling banking service from standby
444 service but not unbundling standby service from banking service. I believe that the
445 data supports a demand for the former but not the later and this method facilitates
446 billing.

447

448 **Q. Can a Rider SST customer still get standby service under your proposal?**

449 A. Yes. All customers must still designate a Selected Standby Percentage (“SSP”)
450 between 0% and 100%. A customer desiring standby service will select an SSP
451 from 1% to 100%.

452

453 **Q. How would a Rider SST customer choose unbundled bank service without**
454 **any standby service in your proposal?**

455 A. A customer that wants to select only unbundled bank must designate a Selected
456 Standby Percentage of 0% and a Selected Bank Percentage (“SBP”) of between
457 1% and 100%.

458

459 **Q. Can a Rider SST customer receive a combination of standby service as well**
460 **as the unbundled bank under your proposal?**

461 A. Yes. Such a customer that wants to select both unbundled bank and standby
462 service must designate a Selected Standby Percentage of between 1% and 100%
463 and a Selected Bank Percentage of between 1% and 100%.

464

465 **Q. Under your proposal, can a customer acquire standby service without a**
466 **bank?**

467 A. No. The Selected Bank Percentage (“SBP”) must be equal to or greater than the
468 Selected Standby Percentage (“SSP”). This is because the current standby
469 service is implicitly based on underlying storage services, the charges for
470 standby are based on the costs of system storage, and the current Allowable
471 Bank equation includes the Selected Standby Percentage. This restriction also
472 simplifies billing. Setting the Selected Bank Percentage equal to the Selected
473 Standby Percentage for a given customer yields the same level of services and
474 charges as the current standby service would with the same Selected Standby
475 Percentage.

476

477 **Q. What modifications do you make to the AB equation contained in your**
478 **revised direct testimony?**

479 A. First, the AB equations are the same as that in the current Rider SST³ except that
480 the term Selected Standby Percentage (“SSP”) needs to be replaced with the term
481 Selected Bank Percentage (“SBP”) to reflect the unbundling that I propose.⁴ Thus
482 the Allowable Bank is determined by the chosen amount of bank rather than the
483 level of backup from system supply chosen by the customer. Also, since SC No. 2
484 customers currently receive all of their Base Rate Days in the unbundled bank, all
485 these customers retain all of those days and are charged for the incremental gas
486 charge capacity if they so choose.

487 **Allowable Bank (AB)** shall mean the maximum quantity of gas that the
488 customer can retain in storage at any time, determined by the following
489 formula:

490 For Service Classification Nos. 2, 5 (North Shore) and 8 (Peoples Gas):

491
$$AB = [BRD + (GCD \times DF \times SBP)] \times MDQ$$

492 For Service Classification No. 3 (North Shore) and 4 (Peoples Gas):

493
$$AB = [(BRD \times SBP) + (GCD \times DF \times SBP)] \times MDQ$$

494 Where,

495 BRD = Base Rate Days (of bank)

496 GCD = Gas Charge Days (of bank)

³ Current Rider SST AB equation: For Service Classification Nos. 2, 5 (North Shore) and 8 (Peoples Gas):
AB = [BRD + (GCD x DF x SSP)] x MDQ
For Service Classification No. 3 (North Shore) and 4 (Peoples Gas):
AB = [(BRD x SSP) + (GCD x DF x SSP)] x MDQ

⁴ This eliminates the need for the Residual Selected Bank Quantity which I proposed in my revised direct testimony.

497 DF = Diversity Factor

498 SBP = Selected Bank Percentage

499 MDQ = Maximum Daily Quantity

500

501 **Q. Why have you decided to make these modifications to your proposal?**

502 A. Cost recovery has proven the most challenging part of implementing the
503 unbundling the Rider SST's AB. Cost recovery is an important issue because,
504 without accurate cost recovery, the Companies may not be able to adequately
505 recover their costs or may over-recover their costs. This issue is complicated by
506 the fact that part of these costs are system costs collected through base rates, and
507 part are off-system costs and, thus, are recovered through the PGA. Additionally,
508 the fact that a set amount of storage costs are included in regular base rates for SC
509 No. 2 means that those customers must have a different cost recovery formula. At
510 the time my direct testimony was filed I did not have a complete working model of
511 cost recovery. Some of the particulars had not been worked out and, subsequent
512 to filing that testimony, I created a working model that I believe adequately recovers
513 the costs of both standby service and the unbundled bank, as I explained in my
514 response to the Companies' DR PGL-NS 8.11. However, the model that I
515 developed in that response did not accurately recover the costs for SC No. 2 due to
516 the storage costs included in regular base rates. Therefore, I have a revised cost
517 recovery model based on my rebuttal testimony here and will provide it as a
518 workpaper to my rebuttal testimony. The output of that model is attached to this
519 testimony as Attachment C.

520

521 **Q. What are the components of providing adequate cost recovery?**

522 A. The components of adequate cost recovery are charges that correctly reflect the
523 appropriate costs and determining the correct quantities to apply those charges
524 to.

525

526 **Q. How important is it to correctly identify the underlying bank capacities to**
527 **ensure accurate cost recovery?**

528 A. It is essential because if you do not get the quantities correct, you will either over
529 or under-price the product and, consequently, the Companies will over or under-
530 recover. This could also lead to cross-subsidies flowing between sales and
531 transportation customers.

532

533 **Q. What bank capacity is in the current Allowable Bank for Rider SST**
534 **customers?**

535 A. The current Rider SST tariff has one Allowable Bank quantity which is the amount
536 of bank paid for by the stand by charges. I propose to redefine this capacity to be
537 the Standby Bank:

538

539 **Standby Bank** (SB) shall mean the capacity of the AB that is provided by
540 the customer's selection of standby service, determined by the following
541 formula:

542 For Service Classification Nos. 2, 5 (North Shore) and 8 (Peoples Gas):

543 $SB = [BRD + (GCD \times DF \times SSP)] \times MDQ$

544 For Service Classification No. 3 (North Shore) and 4 (Peoples Gas):

545 $SB = [(BRD \times SSP) + (GCD \times DF \times SSP)] \times MDQ$

546 Where,

547 BRD - Base Rate Days (of bank)

548 GCD - Gas Charge Days (of bank)

549 DF – Diversity Factor

550 SSP – Selected Standby Percentage

551 MDQ – Maximum Daily Quantity

552

553 **Q. Can you provide an example of how you propose the Companies**
554 **accurately recover the costs of providing banking and standby services**
555 **under Rider SST?**

556 A. Certainly. For example, if two Peoples Gas customers, one on SC No. 2 and the
557 other on SC No. 4, each had an MDQ of 10,000 therms⁵ and selected a Selected
558 Standby Percentage of 25% then the customers would each have a Selected
559 Standby Quantity of 2,500 therms (Note, system parameters are: BRD = 13 days,
560 GCD = 17 days, and the DF = 86). For the SC No. 2 customer, its total bank
561 capacity would be 166,550 therms ($[(13 + (17 \times .86 \times .25))] \times 10000$). It's quite
562 different for the SC No. 4 customer. This customer would have total bank capacity
563 of only 69,050 therms ($[(13 \times .25) + (17 \times .86 \times .25)] \times 10000$).

⁵ This MDQ is representative of customers on both rates.

564

565 **Q. How do the Companies currently recover the costs associated with bank**
 566 **capacity in the tariff?**

567 A. The Companies currently recover the costs associated with this bank capacity in
 568 combination with other costs associated with the provision of standby service
 569 through standby service rates. On-system (base rate) costs are recovered through
 570 base rates for SC No. 2 customers and via the Standby Service Charge for
 571 customers on SC Nos. 4/3. Using the Companies' proposed Standby Service
 572 Charge of \$.33 per-therm of SSQ, the SC No. 4 customer pays \$825.00 (.33 x
 573 2,500) for the base rate portion of this capacity, while the SC No. 2 customer has
 574 already paid for this bank capacity via base rates. Both customers pay the same
 575 Standby Demand Charge. The gas charge costs are recovered via the Standby
 576 Demand Charge for both customers. Using the March 2009 Standby Demand
 577 Charge of \$.1911 per-therm of Selected Standby Quantity, both customers would
 578 pay \$477.75 (.1911 x 2,500) for the gas charge capacity. Therefore the current bill
 579 would be as shown below.

MDQ=10,000; SSP= 25% SSQ= 2,500	Standby Service Charge (SSC)	Standby Demand Charge (SDC)	Total Standby Charge
SC No. 2	None	\$477.75	\$477.75
SC No. 4	\$825.00	\$477.75	\$1,302.75

580 Example of Current Bank Capacity Standby Charges for SC2 and SC4 Customers

581

582 **Q. How do you propose to recover the costs associated with providing bank**
 583 **service?**

584 A. The costs for the portion of the bank at the Selected Standby Percentage continue
585 to be recovered through the current standby charges. If the current charges
586 accurately and justly recover the costs of standby services which include banks,
587 then these charges can continue to recover those costs. Therefore two new
588 charges are needed to recover the incremental costs associated with the
589 incremental bank capacity. The benefit of this approach is that there are no bill
590 impacts for those customers that retain the same level of standby service and bank.
591 They will experience no changes to either their level of service or their bills. So in
592 the example above, the customer selecting a Selected Standby Percentage of 25%
593 and with a Selected *Bank Percentage* (“SBP”)⁶ equal to 25%, the bill for the SC No.
594 2 customer will remain \$477.75 and the bill for the SC. No. 4 customer will remain
595 at \$1302.75.

596

597 **Q. What other bank capacities must be determined?**

598 A. The bank capacity that the customer receives and pays for through its standby
599 election needs to be identified. Then any additional bank capacity that the
600 customer selects, receives and must pay for is determined. This additional (or
601 incremental) bank must be further split into base rate and gas charge portions,

⁶ **Selected Bank Percentage (“SBP”)**, a fraction between 0% and 100% that enables the customer to choose its desired Allowable Bank.

602 because the cost of that bank must be partially recovered through Rider 2.

603 Therefore, I propose to create the Residual Bank as determined below.⁷

604 **Residual Bank** (RB) shall mean the difference between the AB and the SB.

605
$$RB = AB - SB$$

606 And finally, I want to create two bank capacities called the Base Rate Bank⁸

607 and the Gas Charge Bank.⁹ These would be determined as below.

608 **Base Rate Bank** (BRB) shall mean the product of (1-GCP) and the SB.

609
$$BRB = (1-GCP) \times SB$$

610 **Gas Charge Bank** (GCB) shall mean the product of the GCP and the SB.

611
$$BRB = GCP \times SB$$

612

613 **Q. Can you demonstrate these additional capacities?**

614 A. Yes. Suppose that these hypothetical customers all elect a Selected Bank
615 Percentage equal to 80%. Since a portion of the Allowable Bank is already being
616 paid for through standby charges, each customer would just pay for the additional
617 capacity. This incremental capacity, the Residual Bank would also be divided up
618 between base rate and gas charge portions – the Base Rate Bank and the Gas
619 Charge Bank. For the SC No. 2 customer, the Residual Bank is equal to 80,410
620 therms (246,960 – 166,550) and for the SC No. 4 customer, the Residual Bank is

⁷ This replaces the RSBQ from my revised direct testimony.

⁸ There is no BRB for SC2 because all base rate capacity is available. Therefore all additional bank capacity RB is GCB unless the customer was allowed to subscribe to excess capacity in a pool.

⁹ This replaces the GCBQ from my revised direct testimony.

621 equal to 151,910 therms (220,960 – 69,050). In the example used here, the SC
 622 No. 2 customer cannot have and does not pay for a Base Rate Bank because all
 623 possible base rate storage costs are in base rates and the customer gets the full
 624 base rate capacity regardless of the Selected Standby Percentage, but the SC No.
 625 4 customer has a Base Rate Bank of 65,321 therms.

MDQ=10,000; SSP= 25% SSQ= 2,500 SBP= 25%	Base Rate Bank	Gas Charge Bank	Residual Bank
SC No. 2	None	80,410 thm	80,410 thm
SC No. 4	65,321 thm	86,589 thm	151,910 thm

626 Example of Incremental Bank Capacity Determination for SC2 and SC4 Customers

627

628 **Q. What charge should be used to recover the base rate portion of the**
 629 **incremental bank capacity?**

630 A. The costs of providing the Base Rate Bank should be recovered with a new charge
 631 that I call the System Banking Charge (“SBC”). I calculated this amount and
 632 provided it to the Companies in my response to PGL-NS 6.14. “Mr. Sackett has
 633 calculated a new charge called the System Banking Charge (“SBC”) as reflected in
 634 the attached file: Resp to PGL-NS 6-14_Attachment. Like the SSC, this charge
 635 recovers on-system costs. However, it appropriately excludes the costs associated
 636 with production and storage commodity that are in the SSC and unused for banking
 637 services. Additionally, it is designed to be recovered by being multiplied by the
 638 entire base rate [banking] capacity of the bank.” I would add that this charge does
 639 include Compressor O&M costs.

640

	Peoples Gas	North Shore
Annual charges- 2010 Storage Revenues - Demand only	\$ 38,674,412	\$ 422,545
Compressor O&M	\$ 4,104,774	
Total	\$ 42,779,186	\$ 422,545
Manlove capacity	347,309,570	17,790,530
Annual Costs	\$0.1232	\$ 0.0238
SBC	\$ 0.0103	\$ 0.0020

641 System Banking Charge

642

643 **Q. Why do you include Peoples Gas' hub capacity in the System Banking**
644 **Charge?**

645 A. I believe it is appropriate to include the entire capacity of Peoples Gas' portion of
646 Manlove Field. That portion includes the hub capacity. Transportation
647 customers do not chose to exclude some capacity. Therefore the recovery of
648 these costs should be spread over the entire capacity.

649

650 **Q. Why do you treat North Shores' portion of Manlove capacity as on-system**
651 **capacity?**

652 A. I believe it is appropriate to include North Shore's portion of Manlove since North
653 Shore technically has no on-system capacity since they lease that from Peoples
654 Gas. It would be impossible to recover the charge if there was no capacity to
655 divide it by. Additionally, the costs included in this charge are related to the base
656 rate portion of North Shore's storage costs which are based on their portion of
657 Manlove's costs.

658

659 **Q. What would the System Banking Charges be for the two customers in your**
 660 **example?**

661 A. Like the Standby Service Charge, the System Banking Charge does not apply to
 662 SC No. 2 customers. Using the proposed System Banking Charge of \$.0103 per-
 663 therm of Base Rate Bank, the SC No. 4 customer would pay \$672.81 (.0103 x
 664 65,321) for the base rate capacity.

MDQ=10,000; SSP= 25% SSQ= 2,500 SBP= 80%	Base Rate Bank (BRB) Base Rate Capacity	Per Therm Base Rate Charge: System Banking Charge (SBC)	Total System Banking Charge
SC No. 2	None	\$.0103	None
SC No. 4	65,321 thm	\$.0103	\$672.81

665 Example of Base Rate Bank Capacity Charges for SC2 and SC4 Customers

666

667 **Q. What charge do you propose to use to recover the gas charge portion of**
 668 **the incremental bank quantity?**

669 A. The costs of providing the Gas Charge Bank should be recovered using a new
 670 charge that I call the Leased Storage Charge (“LSC”)¹⁰. This charge includes the
 671 new PGA charge that I proposed in my direct testimony, the Leased Storage Gas
 672 Charge (“LSGC”). I calculated this amount and provided it to the Companies in my
 673 response to PGL-NS 6.17c (Attachment E): “Mr. Sackett has calculated the
 674 requested LSGC based on data provided in the Companies’ March PGA filing and

¹⁰ **Leased Storage Charge (“LSC”)**, the LSGC times the DF times the customer’s GCBQ.

$$LSC = (LSGC \times DF \times GCBQ)$$

675 responses to DAS1.26. Mr. Sackett used the estimated costs associated with the
676 ABGC in the numerator along with each Company’s off-system capacity in the
677 denominator. The result was then converted to a monthly charge.” The Leased
678 Storage Gas Charge is multiplied by the Diversity Factor to determine the Leased
679 Storage Charge.

	Peoples Gas	North Shore
Costs from March 2009 PGA filing associated with the ABGC	\$ 26,166,947.88	\$ 9,851,471.96
Off-system capacity from DAS1.26 converted to therms	308,035,500	103,673,030
Annual Costs	\$ 0.0849	\$ 0.0950
LSGC	\$ 0.0071	\$ 0.0079
Diversity Factor	.86	.73
LSC	\$.0061	\$.0058

Leased Storage Charge

680
681

682 **Q. Why do you include use the Aggregated Balancing Gas Charge costs as**
683 **the numerator in the calculation of the Leased Storage Gas Charge?**

684 A. I believe it is appropriate to include these costs only because that is the portion of
685 those costs associated with balancing and storage. As I stated in my revised direct
686 testimony, according to the Companies, “non-commodity gas costs related to firm
687 transportation service ... are not included in the ABGC because they are
688 transportation related purchased gas costs rather than storage and balancing
689 related purchased gas costs.” (Staff Ex. 12.0R, p. 36)

690

691 **Q. What would the Leased Storage Charges be for the two customers in your**
692 **example?**

693 A. The Gas Charge Bank for the SC No. 2 customer is 80,410 therms and the SC No.
 694 4 customer has a Gas Charge Bank of 86,589 therms (.57 x 151,910). Using the
 695 proposed Leased Storage Charge of \$.0061 per-therm of Gas Charge Bank, the
 696 SC No. 2 customer would pay \$490.98 (.0061 x 80,410) for gas charge capacity,
 697 while the SC No. 4 customer would pay \$528.71 (.0061 x 86,589) for the gas
 698 charge capacity.

MDQ=10,000; SSP= 25% SSQ= 2,500 SBP= 80%	Gas Charge Bank (GCB) Gas Charge Capacity	Per Therm Gas Charge: Leased Storage Charge (LSC)	Total Leased Storage Charge
SC No. 2	80,410 thm	\$.0061	\$490.98
SC No. 4	86,589 thm	\$.0061	\$528.71

699 Example of Gas Charge Bank Capacity Charges for SC2 and SC4 Customers

700

701 **Q. What would the Total Bank Capacity Charges be for the two customers in**
 702 **your example?**

703 A. The SC No. 2 customer would pay \$968.73 (\$477.75 + \$490.98) for the total
 704 capacity, while the SC No. 4 customer would pay \$2504.27 (\$1,302.75+ \$528.71)
 705 for the total capacity.

MDQ=10,000; SSP= 25% SSQ= 2,500 SBP= 80%	Standby Charges for Bank Capacity	Charges for Incremental Bank Capacity	Total Bank Capacity Charges
SC No. 2	\$477.75	\$490.98	\$968.73
SC No. 4	\$1,302.75	\$528.71	\$2504.27

706 Example Total Capacity Charges for SC2 and SC4 Customers

707

708 **Q. What revenue risks do the Companies face from unbundling the Allowable**

709 **Bank?**

710 A. The Companies would only be at risk for the foregone System Banking Charge
711 revenue associated with on-system storage costs. They are not at risk for
712 recovering the on-system costs associated with SC No.2 customers, and are not at
713 risk for any of the off-system costs because of the PGA.

714

715 **Q. Do you still recommend that a mandatory 100% subscription rate be**
716 **considered?**

717 A. It is not my preference; however, it may be an acceptable alternative if the
718 Commission determines that it is not appropriate to mitigate the Companies' risk of
719 under-subscription by using a rider equivalent to Nicor Gas Rider 5 Storage Service
720 Cost Recovery ("SSCR"). (Attachment F) The 100 percent subscription
721 requirement creates inefficiencies by requiring each customer to have the same
722 amount of bank relative to MDQ even though customers have differing needs to a
723 bank. I do not think that any customers should be required to select a Selected
724 Bank Percentage of 100%. Because the Companies are not at risk for all of these
725 revenues, I think that there are better ways to mitigate this risk. I think it is
726 important at this point in time to determine what the demand is for this service. A
727 mandatory 100% subscription rate would not allow us to determine that.

728

729 **Q. What do you propose with respect to unsubscribed capacity of the SC No. 2**
730 **customers?**

731 A. I would recommend that it would be made available to other customers.

732

733 **Q. What do you propose to mitigate the risk to the Companies caused by**
734 **under-subscription?**

735 A. I propose that the risk to the Companies be mitigated by using a rider equivalent to
736 Nicor Gas' Rider 5 Storage Service Cost Recovery ("SSCR") to protect the
737 Companies against under-subscription for that portion of on-system lost revenue.
738 Unsubscribed off system assets would be recovered from sales customers through
739 the PGA. This is reasonable since sales customers will have the benefit of the
740 capacity that transportation customers do not use. If the Companies want to be
741 protected from this under-recovery, they would need to calculate a capacity cost of
742 storage service, (The unrecovered annual cost of unsubscribed AB capacity for the
743 Annual Recovery Period, based on the embedded cost of AB capacity) and a
744 carrying cost of storage inventory (The carrying cost of additional investment in
745 Company storage as a result of the unsubscribed AB capacity) and provide it in
746 their surrebuttal testimony.

747

748 **Q. What objection does Mr. Dobson raise regarding the subscription process?**

749 A. Mr. Dobson states in his rebuttal testimony that the method that I envision is too
750 vague and undefined. As I explained in my response to DR PGL- NS 6.21, I
751 recommend use of the Nicor Gas subscription process, which I have attached as
752 Attachment B, as a model here.

753

754 **Q. What do you propose to clarify the subscription process?**

755 A. I have reviewed the process that Nicor Gas is using (Attachment B) and I believe
756 that it will serve as a good model here. This process is an annual process that is
757 part of the MDQ determination. In the case of Peoples Gas and North Shore, this
758 process should happen during the timeframe when the Companies advise their
759 transportation customers of all revised Maximum Daily Quantities (“MDQ”) at the
760 same time that the customers could revise their Selected Standby Percentages
761 (before April 30). This also coincides with the Companies’ publication of the newly
762 calculated Base Rate Days and Gas Charge Days which go into effect on May 1.

763

764 **Q. Specifically what would this subscription process look like?**

765 A. This process would basically have four steps: First, the Companies would notify
766 the Rider SST customers of the capacity that is available for selection. Second, the
767 customers would notify the companies of their desired bank capacity levels. These
768 levels would not be limited as individual customers could end up with more than
769 100% of their allotted AB as long as, as a group, transportation customers do not
770 take more than their share. Third, the Companies would allocate the capacity
771 according to the selected amounts or on a prorated basis based on MDQ if the
772 selected amounts exceed available capacity. Finally, the Companies would notify
773 all customers of what level of AB they received.

774

775 **Q. Should the unsubscribed capacity of the SC No. 2 customers also be put**
776 **into the pot?**

777 A. Yes, because as a group, transportation customers will not over subscribe.

778

779 **Q. Should the individual transportation customers be allowed to subscribe**
780 **over 100%?**

781 A. Yes, because as a group, transportation customers will not over subscribe.

782

783 **Q. What price do you propose to use for any additional capacity reserved**
784 **through the subscription process?**

785 A. The capacity should be split into the on and off-system portion and both quantities
786 recovered like the RB. In other words, the additional capacity from the subscription
787 process would become part of the RB and would be split into BRB and GCB along
788 with the rest of the RB. The price charged for additional capacity from the pool
789 should be the SBC for that portion in the BRB¹¹ and the LCS for that portion in the
790 GCB.¹²

791

792 **Q. What order of purchase do you propose to use for any additional capacity**
793 **reserved through subscription process?**

794 A. The order of purchase from the pool would be undesired SC Nos. 4/3 capacity and
795 then finally, the undesired SC No. 2 capacity could be divvied up.

796

797 **Q. How do you respond to the Companies' objection to annual subscription**

¹¹ This would be the only case where a SC No. 2 customer would have a BRB and pay the SBC.

¹² It could also be the new capacity times the weighted average of the two prices: [(System Banking Charge x Base Rate Percentage) + (Leased Storage Charge x Gas Charge Percentage)].

798 **versus the multi-year contracts?**

799 A. Mr. Dobson makes this seem like it is a new problem that would develop as a result
800 of unbundling the bank. However, this is not the case. The same situation exists
801 already because customers already elect AB via their selection of the SSP on an
802 annual basis. Nicor has an annual subscription process with multi-year contracts
803 as well and I am not aware that its process has created any hardships on Nicor.

804

805 **Q. What critical day (“CD”) bank withdrawal rights did you recommend in your**
806 **direct testimony?**

807 A. In my direct testimony I recommended “that a procedure similar to that used by
808 Nicor Gas be employed. Transportation customers should be allowed a share of
809 the peak day withdrawals commensurate with their share of peak day usage.” (Staff
810 Ex. 12.0R, p. 40) I calculated this amount in response to NS-PGL 6.23 and the
811 number was slightly less than the amount currently allowed with full standby rights.

812

813 **Q. What CD bank withdrawal rights do you now recommend?**

814 A. I have revised my CD withdrawal proposal to be consistent with the method
815 currently in place where the size of those withdrawals is proportional to the
816 size of the bank. I believe that the best solution to this is to replace the term
817 “SSP” in the CD Supply-Shortage Day withdrawal equation¹³ with the term

¹³ For SC Nos. 2, 5 (North Shore) and 8 (Peoples Gas: $[\text{BRD}/(\text{BRD}+\text{GCD})+(\text{GCD}/(\text{BRD}+\text{GCD}) \times \text{SSP})] \times \text{MDQ}$; For SC Nos. 3 (North Shore) and 4 (Peoples Gas): SSQ .

818 “SBP” for SC. No 2 and replace the quantity “SSQ” with the term “SBQ”
819 (which is the Selected Bank Quantity and equals SBP x MDQ) for SC Nos.
820 4/3. This is appropriate because the withdrawal from banks should be linked
821 to the size of the bank rather than the level of the standby because standby
822 implies the use of or right to company supply rather than consumption of
823 transportation customer gas from storage. This is an appropriate distinction
824 that was unnecessary before.

825

826 **Q. What CD bank injection rights do you now recommend?**

827 A. I believe that the best solution to this is to replace the term SSQ in the CD
828 Supply-Surplus Day injection equation with the term “SBQ”. This is
829 appropriate because the injection into the bank should be linked to the size
830 of the bank rather than the level of the standby.

831 An example of the equation with a customer with a bank inventory of 50,000
832 therms is as follows:

	Current		Proposed	
Peoples Gas	SC2	SC4	SC2	SC4
AB Inventory Balance	50,000	50,000	50,000	50,000
BRD	13	13	13	13
GCD	17	17	17	17
SSP	25%	25%	25%	25%
SBP	80%	80%	80%	80%
MDQ	10,000	10,000	10,000	10,000
CD withdrawal	5,750	2,500	8,867	8,000
CD injection	2,500	2,500	8,000	8,000
	Current		Proposed	
North Shore	SC2	SC3	SC2	SC3
AB Inventory Balance	50,000	50,000	50,000	50,000
BRD	5	5	5	5

853 should address separately in surrebuttal the cost-recovery model included as a
854 workpaper to my testimony and each of the charges that I have developed, the
855 System Banking Charge and the Leased Storage Charge.

856

857 **Standby Service Charge**

858 **Q. What did you propose in your direct testimony with regard to the**
859 **Standby Service Charge (“SBC”)?**

860 A. I stated that the Companies must show in rebuttal that this charge is calculated and
861 recovered appropriately.

862

863 **Q. How did the Companies respond to your proposal?**

864 A. The Companies’ witness Ms. Grace defends her derivation of the Standby Service
865 Charge:

866 The Utilities provided workpapers supporting the derivation of these
867 charges. While the presentation of the derivation of the charges
868 differs in this consolidated proceeding from the Utilities’ 1995 and
869 2007 rate cases, the methodology remains unchanged. When the
870 standby service charge was introduced in the Utilities’ 1995 rate
871 cases, the presentation of the storage and productions revenue
872 requirements reflected the nature of the reports generated by the
873 Utilities’ embedded cost of service studies. As there was no summary
874 derivation of the revenue requirements for the storage and production
875 functions, the Utilities provided reports which reflected their
876 derivation. The Utilities used the same data presentation in the 2007
877 rate cases. The workpapers submitted in these proceedings are
878 reflective of the reports generated by newer embedded cost of
879 service models, which provide summarized revenue requirements for
880 the storage and production functions.
881 (NS-PGL Ex. VG -2.0, p. 59)
882

883 **Q. What is your response to Ms. Grace’s claim that “the Utilities used the**
884 **same data presentation in the 2007 rate cases” for the Standby Service**
885 **Charge?**

886 A. I have reviewed the workpapers that Ms. Grace submitted in the past rate
887 case. These show a more detailed and different process than the
888 workpapers filed in this case. In response to Staff DR DAS 6.10
889 (Attachment G), Ms. Grace finally provided a detailed derivation that the
890 process followed in this case is the same as the previous case.

891

892 **Q. What concerns do you have regarding the treatment of production**
893 **costs within the Standby Service Charge?**

894 A. I had additionally asked the Companies to justify the inclusion of
895 production costs in the charge. Ms. Grace responded in her
896 testimony that “the Commission approved the recovery of production
897 and storage costs through the standby service charge in Docket Nos.
898 95-0031, 95-0032 and 07-0241/07-0242 (cons.)” (Co. Ex. VG 2.0, p.
899 58) However, in response to Staff DR DAS 6.11, Peoples Gas
900 stated,

901

902 In Docket No. 04-0112, the Commission ordered the Company to
903 include costs associated with land acquisitions for environmental
904 remediation purposes incurred after October 1, 2005, the beginning
905 of the Company’s fiscal year 2006, as a rate base asset in a rate
906 case. These costs are reflected in Account 304. As Peoples Gas
907 production costs now reflect only Account 304 costs, and no longer
908 support its standby and storage services, the Company will revise its
909 standby service charge to remove these costs from its derivation.
910

911 And North Shore responded to the same DR, “As Account 304 costs do not
912 support the standby and storage services provided to its transportation
913 customers, North Shore Gas will revise its standby service charge to remove
914 these costs from its derivation.”

915

916 **Q. What is your conclusion with regard to the Standby Service Charge?**

917 A. The Companies have provided sufficient specification of the current charge in a
918 manner that is equivalent to that provided in the last rate case. Staff believes that
919 the removal of Account 304 costs from this charge is appropriate.

920

921 **Standby Commodity Charge**

922 **Q. What did you propose in your direct testimony with regard to the**
923 **Standby Commodity Charge (“SCC”)?**

924 A. I proposed replacing the current SCC with the Chicago City Gate price.

925

926 **Q. How did the Companies respond to your proposal?**

927 A. The Companies’ witness Mr. Dobson agreed with some revisions. Specifically he
928 wanted to clarify the source of the price. Additionally, he wanted to ensure that
929 Rider FST customers would be charged a monthly average price and that Rider
930 SST customers would be charged the daily price. (NS-PGL Ex. Ex. RD 1.0 Rev.,
931 pp. 18-20)

932

933 **Q. Do you accept these revisions?**

934 A. Yes.

935

936 **Intra-day Nomination Rights**

937 **Q. What did CNE recommend with respect to providing more intra-day**
938 **nomination rights for transportation customers?**

939 A. CNE witness Ms. Rozumialski recommended that large-volume transportation
940 customers should be allowed to make nominations on an intra-day basis. (CNE Ex.
941 1.0, p. 20)

942

943 **Q. Did the Companies agree to provide any additional intra-day nomination**
944 **flexibility?**

945 A. Yes. The Companies proposed an alternate recommendation to expand
946 nominations in a manner similar to Nicor Gas by providing a restricted, single intra-
947 day nomination with a guaranteed minimum capacity on a four-year trial basis. (NS-
948 PGL Ex. RD-1.0, Rev., p. 20)

949

950 **Q. Do you recommend that the Companies expand intra-day nominations?**

951 A. Yes. I recommend that the Commission approve the limited intra-day nomination
952 expansion that is the Companies' rebuttal proposal.

953

954 **Super-Pooling**

955 **Q. What did CNE recommend with respect to incorporating super-pooling in**
956 **Critical Day penalty calculations for transportation customers?**

957 A. CNE witness Ms. Rozumialski recommended that the Companies allow for
958 incorporation of super-pooling in the calculation of Critical Day penalties an after-
959 the-fact accounting correction as approved by the Commission in Nicor Gas's last
960 rate case, Docket No. 08-0383. (CNE Ex. 1.0, p. 25-26)

961

962 **Q. Did the Companies agree to incorporate super-pooling in Critical Day**
963 **penalty calculations?**

964 A. The Companies' witness Mr. McKendry ignored the current proposal and, instead
965 focused on a proposal made in the past rate case. (NS-PGL Ex. JM-1.0, pp. 13-14)

966

967 **Q. Do you recommend that the Commission incorporate super-pooling in**
968 **Critical Day penalty calculations for transportation customers?**

969 A. CNE specifically altered its proposal from that made in the last case to be
970 consistent with the Commission's decision in Nicor Gas' last rate case. (Order,
971 Docket No.08-0363, March 25, 2009, p. 126). Given that the Commission made
972 this determination in the Nicor case and that I am not aware of problems with
973 respect to the Nicor super-pooling, I recommend that the Commission approve Ms.
974 Rozumialski's super-pooling proposal.

975

976 **VI. Small-Volume Transportation Programs**

977 **Credit for Working Gas for Small-Volume Transportation Customers**

978 **Q. What did you recommend with respect to providing a credit for working gas**
979 **costs for small volume transportation customers?**

980 A. I recommended that small-volume transportation customers on Rider CFY should
981 receive a credit that is determined on a per-therm-of-MDQ basis instead of the
982 current approach which is per customer.

983

984 **Q. Did the Companies agree to provide a credit to small-volume transportation**
985 **customers that is based on MDQ instead of per customer?**

986 A. The Companies accepted my recommendation for small-volume transportation
987 customers on a per-therm-of-MDQ basis and decided to provide it directly to
988 customers instead of indirectly through suppliers as part of the Rider AGG credit.
989 (NS-PGL Ex. VG-2.0, p. 62)

990

991 **Q. Do you accept the Companies modifications to your proposed credit?**

992 A. Yes.

993

994 **Q. Does this conclude your prepared rebuttal testimony?**

995 A. Yes.